

Testimony of
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Lessons of NAFTA for U.S. Relations with the Americas

Good morning, Mr. Chairman and Members of the Subcommittee. I am Ted McNamara, President and CEO of the Council of the Americas, and I appreciate the opportunity to testify before you today.

The Council is the leading business organization dedicated to promoting hemispheric economic integration, free trade and investment, open markets, and the rule of law throughout the Western Hemisphere. The Council's membership includes major U.S. multinational companies with interests in Latin America. Members represent a variety of sectors: manufacturing, energy, transportation, technology, communications, banking, financial services, and natural resources, among others.

The Council was founded thirty-five years ago on the belief that the future of the hemisphere depends on promoting democracy and open market economic principles. Expanding hemispheric cooperation through increased trade and investment benefits all nations of the hemisphere, including the United States, where these are central to our growth and economic health.

Mr. Chairman, you have aptly titled this hearing, "Lessons of NAFTA for U.S. Relations with the Americas." NAFTA has been a tremendous success for the United States and has had a much broader, positive impact than most Americans realize. We all remember the NAFTA debate of the early 1990s. There were incredibly alarmist statements about how this agreement would destroy the U.S. economy and ruin the job market. The "great sucking sound" was the cry, supposedly draining investments and jobs from the high-wage United States to low-wage Mexico.

By now it is obvious that this did not happen. The United States has had the longest peacetime boom in history; real GDP growth is strong; unemployment is at its lowest level in 30 years; and inflation is under control. Since 1993, trade among the U.S., Canada and Mexico is up more than 85%. U.S. merchandise exports to our NAFTA partners are up more than 75%. And those exports to Canada and Mexico supported an estimated 2.6 million jobs in 1998. This is 600,000 more jobs than were supported by U.S. exports to Canada and Mexico in 1993. I could go on with more statistics, but the point is clear. There is no sucking sound here; NAFTA, despite some problems, has indisputably benefited the United States. This is the first of the many "lessons" NAFTA has taught us.

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I want to stress, however, that NAFTA's benefits transcend economics. The agreement has also enhanced our relationships with our neighbors in many other ways and on many levels. In Mexico, NAFTA has given new energy and confidence to the entire country. This attitude spills over into Mexican domestic affairs where a more confident Mexico is addressing broader social issues and is

moving towards modern democracy, in part because of the underlying stability NAFTA provides.

The traditional, Mexican, anti-gringo ideology is giving way to a more friendly and cooperative attitude. The new Mexico sees it in its national interests to cooperate with us, whereas the old Mexico saw its role in world affairs as opposing the U.S. to demonstrate Mexican nationalism. The new, modern Mexico understands that its future depends on three healthy nations in North America, and that cooperation can produce a win-win-win situation. This is revolutionary new thinking for Mexico.

Since 1994, President Ernesto Zedillo has opened the economic and political system to competition, fostered respect for the rule of law, and decentralized power. Political pluralism is growing. The Institutional Revolutionary Party (PRI), lost control of the Mexican Chamber of Deputies in 1997 for the first time in almost 70 years. Moreover, the opposition National Action Party (PAN) and Party of the Democratic Revolution (PRD) now govern a number of states and municipalities, including Mexico City, and an opposition candidate could win the presidency next July. This emergence of political pluralism after 70 years of one-party rule is a very positive development.

It is clear that, without NAFTA, Mexico's traditional social and political elites would have had little reason for change, and that these modernizing developments would not have been what they are today. They are the unforeseen benefits of the economic modernization. Clearly, Mexico still has a long way to go, but the process has started, and NAFTA has been an important stimulus for it.

There are, of course, tensions and distortions that accompany any change, and these are not missing in the NAFTA phenomenon. Mexico still suffers from the old problem of grossly inequitable distribution of the wealth recently generated. Geographically, northern Mexico has benefited more than southern Mexico. The gap between rich and poor has widened in Mexico, as it has throughout the hemisphere (including in the United States). Broad based educational and health-care reforms have not kept up with other reforms. Old style, pervasive corruption and lack of transparency are still a plague on Mexico.

Obviously, free trade is not a panacea for Mexico's or Latin America's ills, but it is an essential part of any program whose goals are democracy, open economic systems, and social justice.

So I offer a second lesson to be learned from NAFTA, namely, that a dramatically new economic approach to our neighbors may produce unexpected benefits for us in political and social areas. This can happen because economic modernization does not take place in a vacuum and repercussions can favor

increased democracy, open economic systems, and social justice. We should be alert to this, and foster it.

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It is important that we understand how critical NAFTA has been to the three signatory states, so that the United States can commit to pursuing what should be our broader objective in the hemisphere, a Free Trade Area of the Americas (FTAA). For in the end, Mr. Chairman, if we cannot negotiate with our neighbors in the hemisphere, neighbors who are asking us to lead this hemisphere to a new level of economic performance, how can we hope to be a world leader of trade and economic development?

The Free Trade Area of the Americas is a unique opportunity for the United States and the hemisphere. The FTAA represents a potential market of 800 million people to whom U.S. producers can sell goods and services. And, similar to the broad benefits of NAFTA, the FTAA promises more than just economic gains. The Council believes that the FTAA represents a great opportunity for growth and development in the region. Trade leads to prosperity and improves the ability to address broader social and political agendas.

Mr. Chairman, I believe that the FTAA is an opportunity that should not be missed. But we are missing it. Through inattention, misinformation, and fear, we are not doing all we can to advance the agreement. The leadership that we need in the executive branch and the Congress is lacking. Our leaders have not convinced the American people of the importance of continued free trade to our economic well-being. Let me cite some of the activity that we are missing out on by our mistaken policies of neglect and indifference.

There are currently over 20 major trade agreements in place in the Americas. The United States is a party to only one of these, NAFTA. Almost all of these agreements have entered into force in the 1990s, establishing a web of preferential trade arrangements without the participation of the United States. This is putting the U.S. economy, U.S. workers, and U.S. companies at a disadvantage. Let me cite just one example, that of Chile. Because the U.S. has failed to negotiate Chile's inclusion into NAFTA, Canada and Mexico have each signed bilateral trade agreements with Chile. As a result, Canadian and Mexican products enter Chile duty-free while U.S. products pay duties. This is great news for Canadian and Mexican companies and workers, but it is bad news for U.S. companies and workers.

This brings me to the third lesson of NAFTA. Once the enormous advantages of free trade are demonstrated to our neighbors, they will continue to

move down that road, with or without us. We sit on our hands at our own risk. Our neighbors and NAFTA partners are not idle; they are improving their economic prospects by forging preferential trade agreements that exclude us. While we are foolishly distracted by the strident shouts of the neo-protectionists, our economic interests and advantages are suffering. Our workers are losing jobs. And our industry is disadvantaged.

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This situation highlights yet another lesson, albeit not a NAFTA lesson. Namely, not all our neighbors are moving in the same direction. Consider Mercosur, the largest trade grouping in Latin America. Made up of Brazil, Argentina, Uruguay and Paraguay, its strength, reach and importance in South America is growing. Mercosur is not a free trade zone. Its goals are not the same as NAFTA and the FTAA. Mercosur is a customs union, aiming at free trade inside the union and a common tariff for those outside. Its objective is to move to a common market with free movement of labor and coordinated macroeconomic policies, possibly even a common currency, within that union. Only secondarily and only after the union is secure can we expect Brazil to lead its partners to the trade negotiation table with the United States.

I know I need not detail to this committee the history of the disputes and tensions between European states in the 1950s and 1960s when the EFTA free trade zone and the European common market competed for the support of European states. The situation is not identical; history does not repeat itself. There are, however, similarities that deserve our attention. But, as I have noted above, we are not paying attention. We are not involved.

Mercosur has made Chile and Bolivia associate members and is consulting with the Andean Community, Latin America's second largest trade group. What they are talking about is a trade agreement that could cover most of South America. As part of this strategy and at Brazil's initiative, South American heads of state will meet in Brazil this August in a summit that could lay the groundwork for a unified South American trade bloc, led by Brazil and Mercosur.

Our inaction on the FTAA encourages these regional arrangements and keeps the United States on the outside. Lack of progress on the FTAA will impact the United States most of all, because our trade barriers are much, much lower than those of our neighbors. But our continued economic strength depends greatly on our ability to bargain for reduced trade barriers that now protect other markets.

There is a school of thought that regional trading blocks serve as stepping-stones to broader free trade agreements. However, the history of the “inner six,” and the “outer seven” in Europe suggests that once nations go down the road to regional economic unions, they are reluctant to abolish them and to enter free trade associations. The regional blocs tend to be exclusive, not inclusive, and as such they will hinder hemispheric-wide integration.

As I said, Mercosur’s first priority is not to foster free trade beyond the borders of its members. For example, as Brazilian and Argentine private enterprises try to compete internationally, some sectors are calling for government support through subsidies (a la Europe). Such actions warrant concern because they threaten negotiations seeking to open borders. Also, considering Mercosur’s unified economic rules and regulations and common external tariff, a customs union with a combined barrier will certainly be harder for outsiders to penetrate. Mercosur countries can be sure of open access to the U.S. markets, while they negotiate separate arrangements with others. They are doing so with the European Union and with our neighbors.

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So, my last point is not to cite another lesson of NAFTA. Rather, it is to point out that no one else will teach us the lessons of NAFTA. They are there for us to see, if we are disposed to see them. We displayed non-partisan leadership in negotiating, ratifying, and implementing NAFTA. We must now show that same leadership to shape the future trade agenda of the hemisphere. If we do not do so, that agenda will be shaped by others without us, and it will not be our agenda. Indeed, that is already happening.

Mr. Chairman, our efforts to reduce trade barriers with Canada and Mexico through NAFTA have greatly benefited North America. The U. S. economy has boomed and we have witnessed supplementary benefits in all three countries. The FTAA presents an opportunity to link the 34 democracies of the Western Hemisphere by broadening and deepening relations in ways that benefit the U.S. economy and its citizens. The FTAA can reinforce many of the positive trends of democratization, open economic systems, and greater social justice, which are occurring throughout the hemisphere. We are approaching a critical time in the FTAA negotiations. Fast track will be needed to negotiate the major issues that are now on the table. Let us seize the moment.

Thank you very much.